Sovereign Debt 2019: Eurozone Commercial Borrowing To Increase 1.6% In 2019

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Key Takeaways

- We forecast eurozone sovereign borrowing from commercial sources will increase slightly in 2019 to €881 billion, but this remains among the lowest levels in a decade, with lower borrowing only in 2016 and 2018.
- We believe this reflects sovereigns' improved debt profiles, with longer average maturities and interest rates on outstanding debt, leading to lower annual debt redemption, as well as a general progress in budgetary consolidation, leading to a relative decline in net borrowing needs.
- The period of disconnect between sovereign credit fundamentals and borrowing conditions in financial markets has come to an end, in our opinion, and we therefore expect financial conditions for individual sovereigns to be increasingly differentiated.

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S&P Global Ratings projects the 19 eurozone sovereigns will borrow about €881 billion in gross long-term commercial paper in 2019. This represents a 1.6% increase in long-term gross commercial borrowing, which although not very significant, marks a change compared with 2018 when borrowing declined about 7%. Even so, we expect 2019 gross long-term commercial borrowing to be among the lowest in a decade, with lower amounts being borrowed only in 2016 and 2018. As such, it reflects sovereign's improved debt profiles, with longer average maturities, leading to lower annual debt redemption, as well as general progress in budgetary consolidation, leading to a relative decline in net borrowing needs. This continues to be helped by favorable financial conditions, characterized by low long-term interest rates, which have remained benign for most sovereigns despite the termination of quantitative easing by the European Central Bank (ECB).

This year about 82% or €718 billion of eurozone sovereigns' gross borrowing will be to refinance maturing long-term debt. This is an increase of 3% compared with €697 billion in 2018. We expect debt redemption to continue to hover at similar levels in the coming years partly because of the benefits of the extension of average debt maturities in the recent years as financial conditions improved.

We estimate new borrowing of €162 billion in 2019 to cover the current year's funding needs (see table 1), lower than our estimate of net 2018 long-term issuance of €170 billion. This amount is the lowest since 2007 and significantly below the 2010 peak of €474 billion. On average, this points to gradual budgetary consolidation, supported by the outlook of solid economic growth, which has in turn benefitted from the ECB's accommodative monetary stance. With respect to net borrowing in the future, we believe that gradually less benign financial conditions and ongoing deceleration in economic growth could slow the fiscal consolidation of the biggest eurozone government issuers. For example, we expect this year's fiscal stance to be somewhat expansionary, which could lead to a rise in net commercial borrowing in the future. Indeed, the Italian and French governments have announced plans to further delay budgetary consolidation, while Spain's progress in deficit reduction is mainly predicated on the cyclical performance, given that parliament rejected the government's 2019 budget which included some structural budgetary efforts. In fact, we believe that the fiscal policy reversal in Italy and to some extent in France, together with slow budgetary consolidation in Spain, are the main impediments to a faster decline in net eurozone borrowing. Germany's increase in borrowing this year is mainly related to the refinancing of the federal government's winding-up institution FMS Wertmanagement. In terms of broader perspective, we expect France's and Italy's net borrowing in 2019 to represent almost three-quarters of total net borrowing in the eurozone.

Table 1

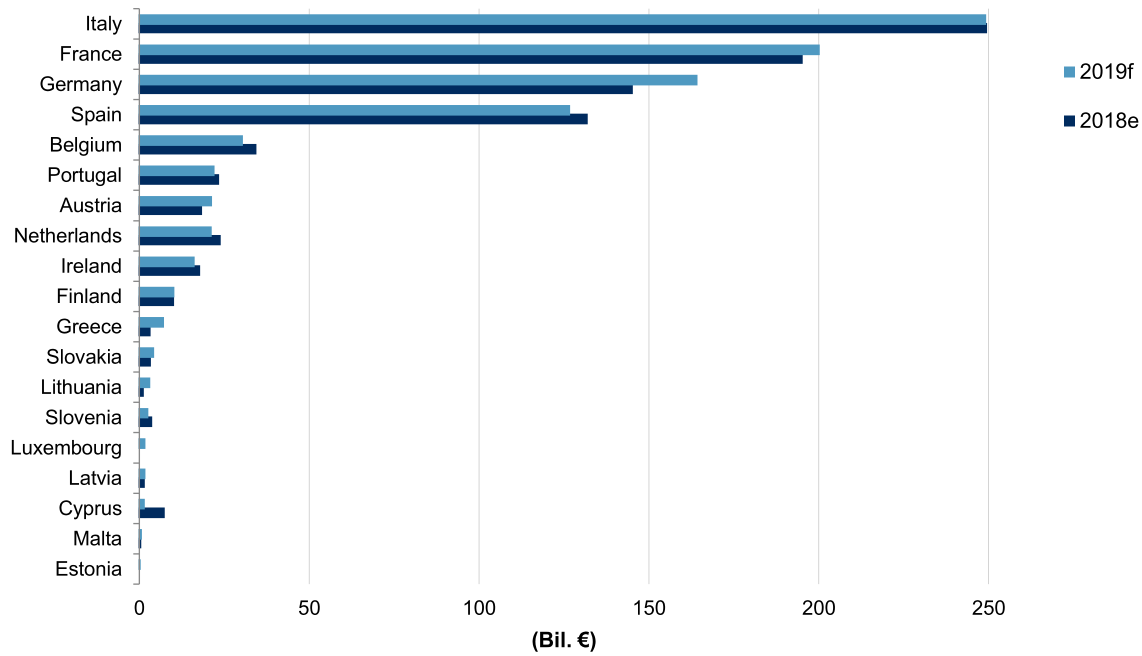
Sovereign Commercial Issuance And Debt

	2011	2012	2013	2014	2015	2016	2017	2018	2019f
(Bil. €)									
Gross long-term commercial borrowing	913	1,003	942	935	907	878	934	867	881
Of which amortization of maturing long-term debt	597	575	623	633	698	704	738	697	718
Of which net long-term commercial borrowing	316	428	319	301	209	173	197	170	162
Total commercial debt stock (year end)	6,129	6,197	6,480	6,691	6,842	7,034	7,117	7,297	7,488
Of which short-term debt	599	598	585	517	472	458	456	459	476
Of which debt with original maturity greater than one year	5,530	5,599	5,895	6,173	6,370	6,576	6,662	6,838	7,012
(%GDP)									
Gross long-term commercial borrowing (% GDP)	9.3	10.2	9.5	9.2	8.6	8.1	8.3	7.5	7.3
Of which amortization of maturing long-term debt (% GDP)	6.1	5.8	6.3	6.2	6.6	6.5	6.6	6.0	6.0
Of which net long-term commercial borrowing (% GDP)	3.2	4.3	3.2	3.0	2.0	1.6	1.8	1.5	1.4
Total commercial debt stock (year end) (% GDP)	62.5	62.9	65.2	65.7	65.0	65.0	63.5	62.9	62.5
Of which short-term debt (% GDP)	6.1	6.1	5.9	5.1	4.5	4.2	4.1	4.0	4.0
Of which debt with original maturity greater than one year (% GDP)	56.4	56.9	59.3	60.7	60.5	60.7	59.4	59.0	58.5

f--Forecast.

Chart 1

Gross Long-Term Commercial Borrowing By Sovereign



e--Estimated. F--Forecast.

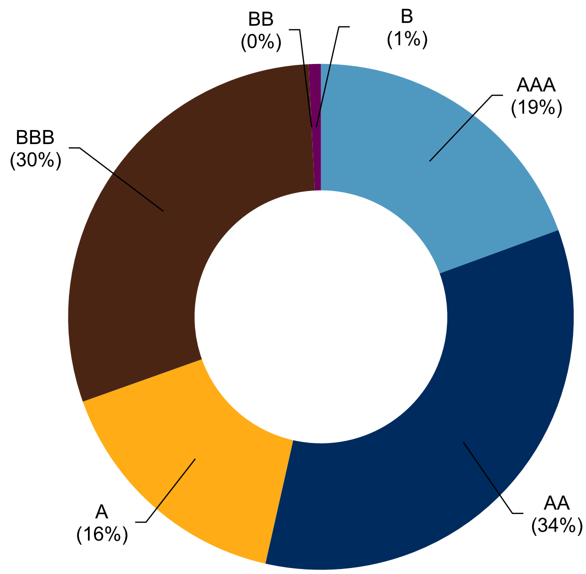
Another more specific reason that has prevented commercial debt issuance from declining faster is the return to the market of crisis-affected sovereigns that required official funding--for example Cyprus, Greece, and Portugal. While Cyprus and Portugal have been in the market for several years now, the former increased its borrowing in 2018 due to the recapitalization of the Cooperative Central Bank, a commercial bank, early that year. Following Greece's return to the market, we expect it to gradually increase its share of commercial borrowing, which at the end of last year amounted to mere 17% of total debt.

Austria, Greece, and the Netherlands will post below-zero net financing. In terms of their respective commercial debt stocks, we project practically no net borrowing for Estonia, Malta, and Slovenia, and only small net borrowing for Cyprus, Finland, Germany, and Ireland.

As a result, we project that rated eurozone sovereigns' commercial debt stock will reach an equivalent of €7.49 trillion by the end of 2019, and that the total commercial and bi-/multilateral debt stock will reach €7.93 trillion, a year-on-year increase of €183 billion, or 2.4%. The share of commercial sovereign debt rated 'AAA' will decrease slightly to below 20% of total commercial debt during 2019, according to our projections (see chart 2).

Chart 2

Sovereign Total Commercial Debt In 2019 By Foreign Currency Ratings Category (%)



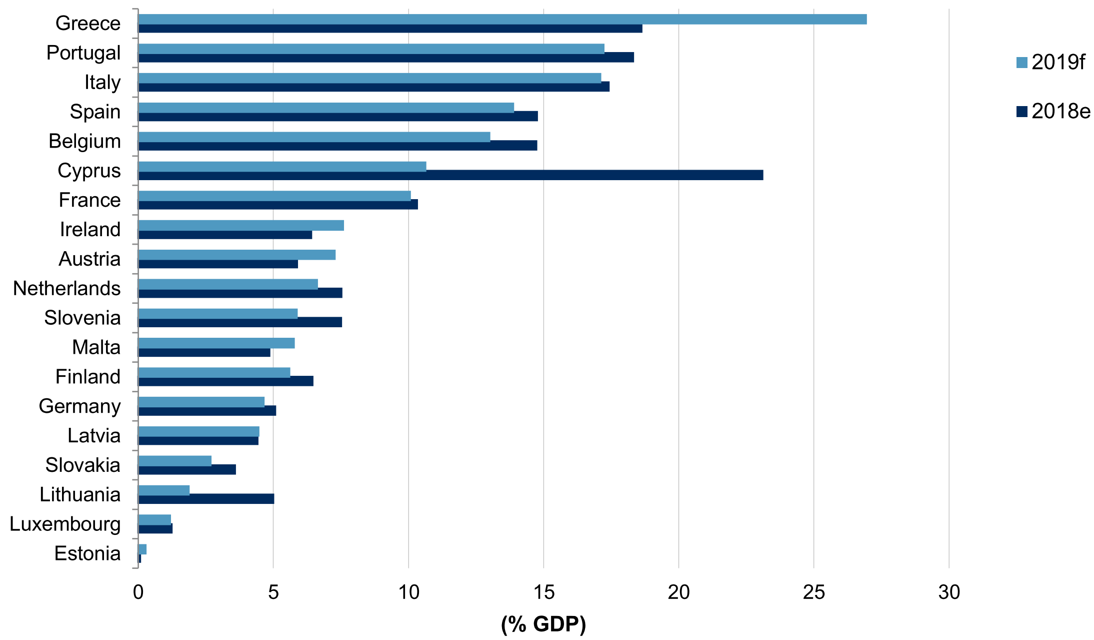
Source: S&P Global Ratings.

Including borrowing from official lenders, we estimate overall gross long-term borrowing of €883 billion in 2019. Following the full repayment of International Monetary Fund loans by Ireland in 2017 and Portugal and 2018, we expect that further decline in the absolute level of eurozone official debt will be relatively slow, given the very long-dated character of bilateral loans (for example, to Greece) and loans under the European Financial Stability Facility or European Stability Mechanism.

Including short-term debt, we calculate that Belgium, Italy, the Netherlands, and Spain will face the highest debt rollover ratios as a percentage of debt of the eurozone sovereigns this year. As a percentage of GDP, debt rollover ratios (including short-term debt) are highest for Greece (26.9% of GDP) as well as Italy and Portugal (both around 17% of GDP; see chart 3)--which is unsurprising given that these three eurozone members have the highest stocks of government debt as a share of GDP.

Chart 3

Debt Rollover Ratios (% GDP)



e--Estimated. F--Forecast.

Of the four largest eurozone borrowers (Italy, France, Germany, and Spain), only Spain is likely to see a significant decline in long-term commercial borrowing in 2019, mainly due to lower long-term debt redemption this year, while the country's net borrowing is set to drop only slightly under 2018's level. While we expect Italy will borrow a similar amount as in 2018, it is important to note the underlying shift in the government's fiscal policy following the 2018 general elections. As a result, Italy borrowed about €15 billion more than initially planned in 2018, thus partly pre-financing its 2019 borrowing requirement. As mentioned above, Germany's increase in borrowing this year is partly related to the refinancing of the debt of FMS Wertmanagement, a federal government institution that will wind up nationalized Hypo Real Estate Holding AG. We expect France will borrow more than in 2018 because of higher redemption in 2019 coupled with increased government spending resulting from budgetary modifications late last year in response to the "yellow vest" protests.

In 2018, we expect the eurozone's generally sturdier sovereign debt profiles--with long average tenors and low average interest rates on the outstanding stock of debt--to continue to have a positive impact on public finances. Nevertheless, while we expect a decline in net government debt-to-GDP ratios for most sovereigns through 2019, we expect the ratio to increase in France and Italy, in the absence of stronger nominal economic growth or more robust primary balances (budget balance excluding interest payments).

Despite the recent termination of the ECB's program of public asset purchases, we anticipate that the ongoing decline in the average interest rate on outstanding government debt is unlikely to reverse soon. That said, occasional volatility may arise from sovereign-specific issues (see "Eurozone Sovereign Rating Trends 2019," published on Jan. 14, 2019). This is because, besides the lengthening of average maturities on outstanding debt, sovereigns will continue to finance themselves at lower interest rates than in previous years. Overall, an important consideration with respect to the ECB's tapering is that we expect ongoing budgetary consolidation will result in lower net borrowing by eurozone sovereigns over the medium term, while the locking-in of favorable financial conditions by national treasuries across the eurozone will likely see annual debt redemption decline. This implies that, as the ECB ends its quantitative easing program, the impact on demand for the eurozone sovereign paper should not be a concern, given the ECB's substantial reinvestments (estimated at about €130 billion) and the expected rather limited increase in the supply of government bonds.

Overall, we expect bond yields will gradually rise in coming years, in line with the pace of the ECB's monetary policy normalization. At the same time, we believe that the beneficial direct impact of the ECB's policies on the sovereigns' debt profiles will persist. In the absence of a sovereign-specific interest rate shock--like that observed in Italy last year--we think this will allow for an orderly absorption of the upcoming increased cost of sovereign debt refinancing.

We nevertheless believe that the period of disconnect between sovereign credit fundamentals and borrowing conditions in financial markets has come to an end. As a result, we expect financial conditions for individual sovereigns to be increasingly differentiated, subject to underlying credit-related developments, in particular the economic performance, and economic and budgetary policy decisions of individual eurozone sovereigns. In this context, we note that much of the economic recovery and growth performance has been cyclical, but without additional reforms it could stall. Moreover, political uncertainty supported by populism is on the rise, as reflected in the electoral outcome in Italy for example and in opinion polls across Europe ahead of the upcoming European elections in May. We believe this may significantly complicate any substantial steps toward deeper integration of the Economic and Monetary Union, as national governments become more introverted and potentially less interested in tackling the outstanding challenges of incomplete monetary union architecture.

Our estimates focus on debt issued by a central government in its own name and exclude local government and social security debt, as well as debt issued by other public bodies and government-guaranteed obligations. In terms of commercial debt instruments, our estimates for long-term borrowing include bonds (with maturities of more than one year) issued either on publicly listed markets or sold as private placements, as well as commercial bank loans.

In addition to commercial debt, some of the estimates we use in this study include official debt. We do not include government debt that central banks may issue for monetary policy purposes in some countries. All reported forecast figures are our own estimates and do not necessarily reflect the issuers' projections. Our estimates are informed by our expectations regarding central government deficits, our assessment of governments' potential extrabudgetary funding needs, and our estimates of debt maturities in 2018. Estimates that we express in dollars are subject to exchange rate variations.

Table 2

Eurozone Gross Commercial Long-Term Borrowing

(Bil. €)	2011	2012	2013	2014	2015	2016	2017	2018	2019f	Share of 2019f total borrowing (%)	Total commercial borrowing 2019f
Austria	18.1	22.8	23.5	21.5	18.5	22.3	24.7	18.1	21.1	2.4	880.9
Belgium	49.5	40.5	46.7	35.7	40.7	42.3	36.9	34.1	30.3	3.4	
Cyprus	1.2	0.7	3.0	2.0	2.3	1.6	1.2	7.2	1.3	0.1	

Table 2

Eurozone Gross Commercial Long-Term Borrowing (cont.)

Estonia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	
Finland	16.8	14.3	13.7	12.1	11.0	13.9	13.7	10.0	10.0	1.1	
France	187.8	178.0	168.8	172.0	187.0	187.0	187.0	195.0	200.0	22.7	
Germany	185.9	175.4	183.0	158.0	156.0	160.0	156.0	145.0	164.0	18.6	
Greece	50.5	80.4	0.0	5.0	0.0	0.0	3.3	3.0	7.0	0.8	
Ireland	0.0	8.2	32.5	11.9	13.4	8.5	17.0	17.6	16.0	1.8	
Italy	218.6	233.0	258.9	279.7	251.2	255.8	275.5	249.3	249.0	28.3	
Latvia	0.5	1.8	1.5	2.3	1.4	1.6	1.2	1.3	1.5	0.2	
Lithuania	1.4	2.4	1.7	2.4	2.7	1.5	2.7	1.0	2.9	0.3	
Luxembourg	0.0	1.0	3.1	0.2	0.0	0.0	2.0	0.0	1.5	0.2	
Malta	0.7	0.8	0.8	0.6	0.5	0.6	0.4	0.2	0.5	0.1	
Netherlands	53.0	60.4	51.8	50.9	47.4	26.6	32.5	23.6	21.0	2.4	
Portugal	8.7	3.6	14.4	26.7	29.6	26.2	29.2	23.2	21.9	2.5	
Slovakia	6.3	10.3	7.3	4.9	3.2	5.0	6.1	3.1	4.1	0.5	
Slovenia	3.9	2.2	6.1	6.4	3.2	4.9	6.5	3.5	2.4	0.3	
Spain	110.3	167.6	125.4	142.2	139.0	119.8	138.7	131.7	126.5	14.4	

Breakdown by foreign currency rating category*

(Bil. €)	2011	2012	2013	2014	2015	2016	2017	2018	2019f	Share of 2019f total borrowing (%)	Total commercial borrowing 2019f
AAA	238.9	236.8	237.9	209.1	203.4	186.6	190.5	168.6	186.5	21.2	880.9
AA	272.1	255.6	252.7	241.3	257.2	265.5	262.3	257.3	261.4	29.7	
A	123.1	193.4	175.3	170.7	163.3	141.9	172.4	158.5	153.8	17.5	
BBB	228.6	237.3	276.3	308.4	283.1	283.5	305.9	279.6	272.2	30.9	
BB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
B	50.5	80.4	0.0	5.0	0.0	0.0	3.3	3.0	7.0	0.8	
CCC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

e--Estimate. F--Forecast. N.A.--Not available.

Table 3

Eurozone Total Commercial Debt At Year-End (Long- And Short-Term)

(Bil. €)	2011	2012	2013	2014	2015	2016	2017	2018	2019f	Share of 2019f total commercial debt (%)	Total commercial debt 2019f
Austria	183.2	188.8	194.1	196.2	199.1	207.8	211.2	211.7	211.1	2.8	7,488
Belgium	363.5	364.8	371.4	380.6	389.6	404.9	385.7	388.9	391.1	5.2	
Cyprus	11.0	11.7	8.0	7.0	6.4	7.2	6.9	11.0	11.2	0.1	
Estonia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Table 3

Eurozone Total Commercial Debt At Year-End (Long- And Short-Term) (cont.)

Finland	79.7	83.9	89.7	95.1	99.8	102.4	105.8	105.0	106.7	1.4	
France	1,313.0	1,386.0	1,457.2	1,527.6	1,576.4	1,620.6	1,686.1	1,756.4	1,845.0	24.6	
Germany	1,037.0	1,055.6	1,114.0	1,113.0	1,147.0	1,132.0	1,131.0	1,119.0	1,135.0	15.2	
Greece	294.2	121.9	101.3	63.4	15.0	51.0	65.4	66.8	58.7	0.8	
Ireland	102.3	106.2	130.6	138.0	146.3	145.5	153.2	159.5	162.4	2.2	
Italy	1,629.7	1,638.7	1,722.7	1,782.2	1,814.4	1,867.2	1,906.4	1,959.4	2,009.4	26.8	
Latvia	2.0	4.0	4.0	6.0	6.7	8.1	8.2	8.9	9.9	0.1	
Lithuania	10.0	11.0	11.0	13.0	13.1	12.8	14.3	13.2	15.3	0.2	
Luxembourg	5.2	6.2	7.3	6.3	7.5	6.3	8.3	8.3	9.6	0.1	
Malta	4.4	4.6	5.1	5.1	5.3	5.5	5.4	5.3	5.4	0.1	
Netherlands	319.6	341.8	357.8	358.1	350.5	348.9	331.5	320.7	309.8	4.1	
Portugal	139.0	131.5	132.2	137.0	152.8	167.2	180.1	192.7	200.2	2.7	
Slovakia	28.3	34.4	34.3	38.6	35.2	35.9	37.0	37.7	39.3	0.5	
Slovenia	15.1	17.5	21.6	24.9	26.7	26.5	28.1	28.6	28.6	0.4	
Spain	592.1	688.2	717.8	798.4	850.1	884.3	852.8	904.3	939.3	12.5	
(Bil. €)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019f**	**Share of 2019f total commercial debt (%)**	**Total commercial debt 2019f**
AAA	1,361.8	1,403.6	1,479.1	1,477.4	1,505.0	1,487.1	1,470.7	1,448.0	1,454.3	19.4	7,488
AA	1,939.3	2,023.5	2,112.4	2,199.5	2,264.8	2,335.7	2,388.8	2,461.9	2,553.9	34.1	
A	754.1	866.0	924.5	1,024.0	1,083.5	1,118.6	1,099.0	1,157.5	1,200.3	16.0	
BBB	1,779.7	1,782.0	1,862.9	1,926.2	1,973.6	2,041.6	2,093.4	2,163.1	2,220.8	29.7	
BB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
B	294.2	121.9	101.3	63.4	15.0	51.0	65.4	66.8	58.7	0.8	
CCC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

e--Estimate. F--Forecast. N.A.--Not available.

Table 4

Central Government Rollover Ratios And Debt Structure (% Of Total Debt, Including Bi-/Multilateral)

	2018						2019f		
	Commercial debt (% of total)	**Short-term debt (% of total)**	**Foreign currency debt (% of total)**	**Long-term fixed-rate debt (% of total debt)**	**Inflation-indexed debt (% of total)**	**Bi-/Multilateral debt (% of total)**	**Rollover ratio (% of total debt)**	**Rollover ratio (% of GDP)**	**Bi-/Multilateral debt (% of total)**
Austria	100.0	2.4	0.0	95.8	0.0	0.0	13.9	7.3	0.0
Belgium	100.0	9.4	0.0	90.5	0.1	0.0	15.6	13.0	0.0
Cyprus	52.5	1.2	3.3	61.2	0.0	47.5	11.1	10.6	45.7
Estonia	0.0	0.0	0.0	0.0	0.0	100.0	14.9	0.3	100.0

Table 4

Central Government Rollover Ratios And Debt Structure (% Of Total Debt, Including Bi-/Multilateral) (cont.)

Finland	100.0	4.1	0.0	70.2	0.0	0.0	12.7	5.6	0.0
France	100.0	6.4	0.0	81.1	12.5	0.0	13.2	10.1	0.0
Germany	99.3	1.2	0.0	92.8	5.9	0.7	14.3	4.6	0.6
Greece	18.6	11.1	2.1	78.2	0.4	81.4	14.9	26.9	83.1
Ireland	77.7	4.4	0.0	93.0	0.3	22.3	12.3	7.6	21.8
Italy	100.0	5.5	0.4	75.5	11.9	0.0	15.4	17.1	0.0
Latvia	86.8	3.7	0.0	84.7	0.0	13.2	12.8	4.5	7.0
Lithuania	88.5	0.0	0.0	100.0	0.0	11.6	5.1	1.9	11.2
Luxembourg	90.3	5.5	0.0	94.5	0.0	9.7	7.2	1.2	3.7
Malta	100.0	5.4	0.0	92.3	0.0	0.0	13.6	5.8	0.0
Netherlands	100.0	7.3	0.0	92.8	0.0	0.0	16.8	6.6	0.0
Portugal	78.5	8.8	1.6	83.3	0.0	21.5	14.3	17.2	20.9
Slovakia	94.3	2.0	5.5	98.0	0.0	5.7	6.1	2.7	6.0
Slovenia	97.9	1.3	8.3	97.7	0.0	2.1	9.7	5.9	2.0
Spain	96.9	8.9	0.1	100.0	6.0	3.1	18.0	13.9	3.0
	2018						**2019f**		
	Commercial debt (% of total)	**Short-term debt (% of total)**	**Foreign currency debt (% of total)**	**Long-term fixed-rate debt (% of total debt)**	**Inflation-indexed debt (% of total)**	**Bi-/Multilateral debt (% of total)**	**Rollover ratio (% of total debt)**	**Rollover ratio (% of GDP)**	**Bi-/Multilateral debt (% of total)**
AAA	99.4	2.6	0.0	92.8	4.6	0.6	14.8	5.0	0.5
AA	100.0	6.4	0.0	83.3	8.9	0.0	13.6	9.8	0.0
A	93.0	7.5	0.4	98.2	4.5	6.5	16.2	11.4	6.3
BBB	97.2	5.8	0.6	76.2	10.5	2.8	15.2	17.0	2.7
BB	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	0.0
B	18.6	11.1	2.1	78.2	0.4	81.4	14.9	26.9	83.1
CCC	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	0.0

f--Forecast. N/A.--Not applicable.

Table 5

Eurozone Sovereign Ratings

	Foreign currency ratings*
Austria	AA+/Stable/A-1+
Belgium	AA/Stable/A-1+
Cyprus	BBB-/Stable/A-3
Estonia	AA-/Stable/A-1+
Finland	AA+/Stable/A-1+
France	AA/Stable/A-1+

Table 5

Eurozone Sovereign Ratings (cont.)

	Foreign currency ratings*
Germany	AAA/Stable/A-1+
Greece	B+/Positive/B
Ireland	A+/Stable/A-1
Italy	BBB/Negative/A-2
Latvia	A/Stable/A-1
Lithuania	A/Stable/A-1
Luxembourg	AAA/Stable/A-1+
Malta	A-/Positive/A-2
Netherlands	AAA/Stable/A-1+
Portugal	BBB-/Positive/A-3
Slovakia	A+/Stable/A-1
Slovenia	A+/Positive/A-1
Spain	A-/Positive/A-2

*Ratings as of Feb. 21, 2019.

Related Research

- Sovereign Debt 2019: Global Borrowing To Increase By 3.2% To US$7.8 Trillion, Feb.21, 2019
- Sovereign Debt 2019: Emerging Market Borrowing Is Set To Increase By 5.6% To $1.4 Trillion, Feb.21, 2019
- Sovereign Debt 2019: CEE And CIS Commercial Borrowing To Increase By 15% To $187 Billion, Feb.21, 2019
- Eurozone Sovereign Rating Trends 2019, Jan. 14, 2019

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